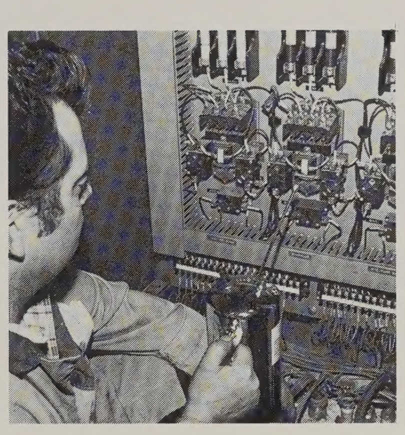
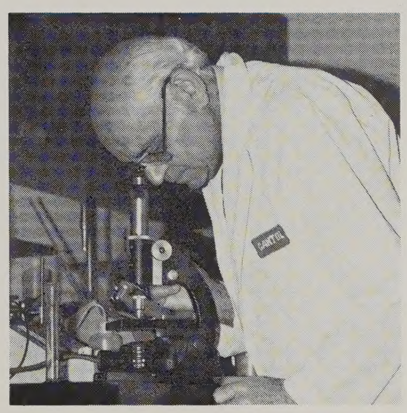
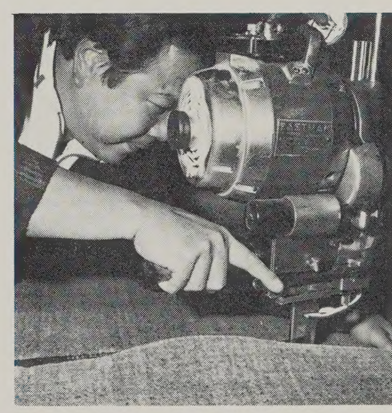
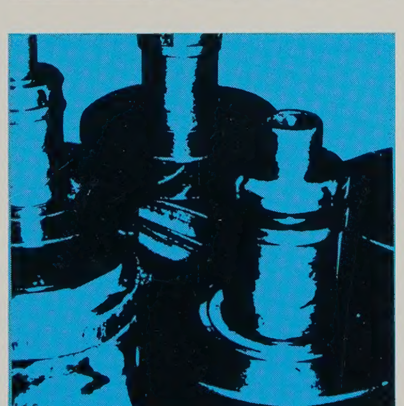
Cantol Limited **1975 Annual Report**









Cantol

Cantol Limited/Cantol Limitée and Subsidiary Companies

Head Office
9729 Cote de Liesse,
Dorval, Quebec

Executive Offices and Plant
199 Steelcase Road, Box 2400,
Don Mills, Ontario

Subsidiary and Associated Companies
CANTOL LIMITED
Chemical Division —
Momar (Canada) Limited
Canadian Permag Products Ltd.
Warco Lubricants

Dependable Furniture
CANTOL INC.
Chemical Division —

Auditors
Soberman, Isenbaum, Colomby
& Nisker

Bankers
Canadian Imperial Bank
of Commerce

Transfer Agent and Registrar
Crown Trust Company

Stock Listing
Montreal Stock Exchange

Directors

Jerry Sone

Jeffrey Bayer

Simms Shuber

Senator Keith Davey

Officers

Jerry Sone
President

Jeffrey Bayer
Executive Vice-President

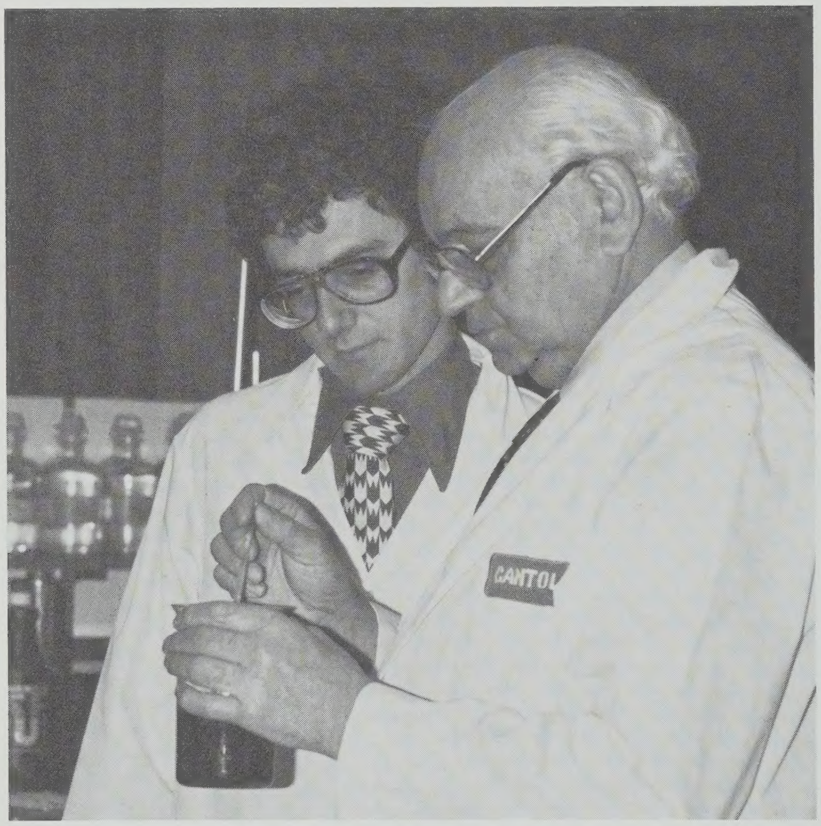
Simms Shuber
Secretary-Treasurer

Jerry Sone — Simms Shuber — Senator Keith Davey — Jeffrey Bayer

Cantol Specialty Chemical Division — Sales Management Team

The sales management people that are selected at Cantol are all chosen through our own sales force. Each one of our managers sells directly in the field as well as managing other Cantol representatives. The basic theory behind these ideas is that our men are constantly in the field calling on industry and institutions. They are always aware of the situations that exist in the accounts. By calling on accounts themselves, every day, they are more qualified to guide our sales representatives in their selling career with Cantol. This constant exposure to the field keeps them alert and sharp at all times. We do not believe that you can guide sales personnel from behind a desk.

In our U.S. operation which is just three years old, the Canadian formula of doing business has been fully incorporated into the United States. Our momentum is just starting there. We have a large group of men who have established themselves as career salesmen with Cantol. Out of this group we will be selecting some of the future management.



Dr. Aaron Wolkoff Dr. Ernest Knapp

Sales Management team — from left to right.

Allen Stroll
General Sales Manager, U.S.A.

Elmer Snethen
General Manager, U.S.A.

Ronald Swartz
Sales Manager, Alberta

Donald Walker
Sales Manager, British Columbia

John Hexamer (standing)
Sales Manager, Western Ontario

William McAlpine
Vice President, Sales

Murray Waldman (standing)
Sales Manager, Toronto

Dave Kornblum
Sales Manager, Eastern Ontario

J. Norman Leach
Manager, Industrial Division

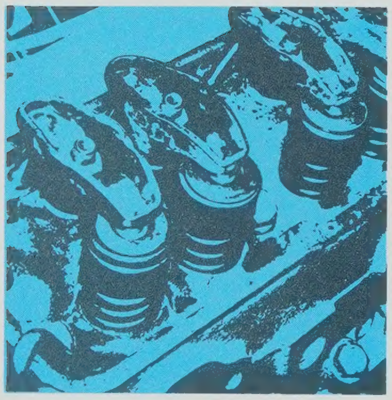
Maurice Grant
Sales Manager, Northwestern Ontario

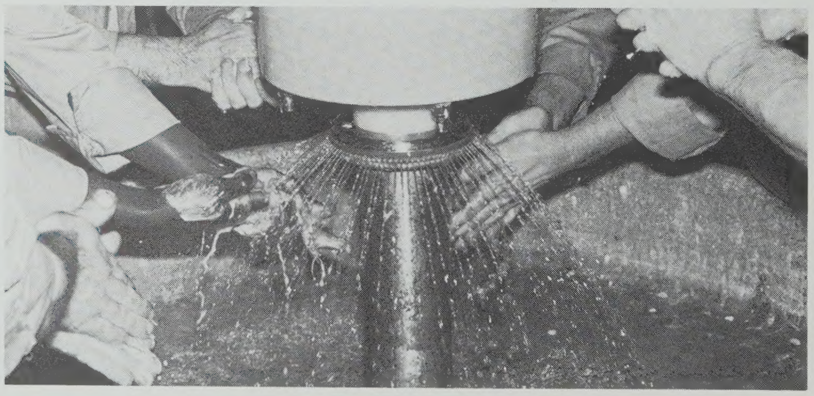
Martin Rosenberg
Sales Manager, Quebec and Maritime Provinces

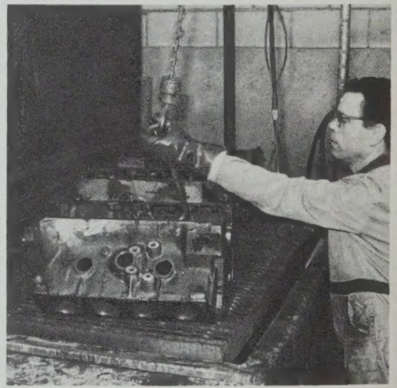
Lamarr Dobbs (not shown)
Sales Manager, New York City

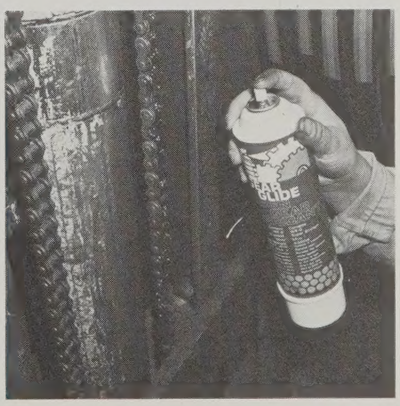
Cantol Specialty Chemical Division

Cantol manufactures a wide range of specialty chemicals that are sold directly to industry and institutions. These are products such as degreasers, solvents, lubricants, disinfectants and institutional cleaners. Through Cantol's research, we are constantly working to keep the quality of our products high. Our research has, where applicable, reformulated to meet the demands of industry and institutions. This is due to the fact that we are constantly aware of new raw materials being available or through the use of existing raw materials that can be applied in various manners to our formulations. We now have available an exact line in Canada and the United States.



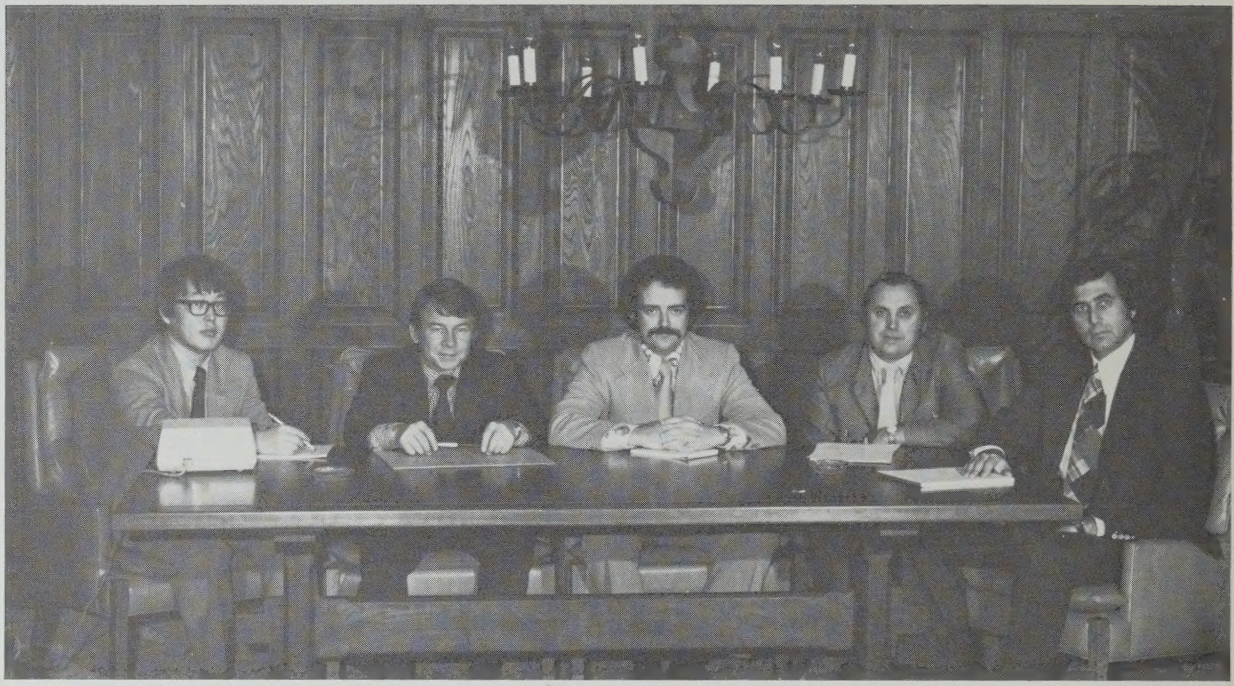




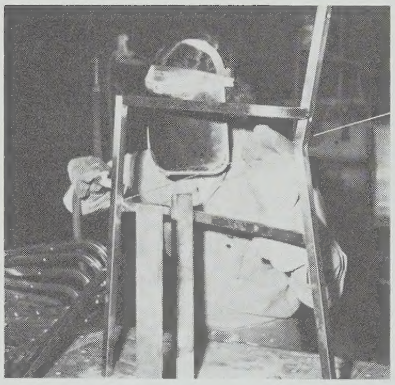


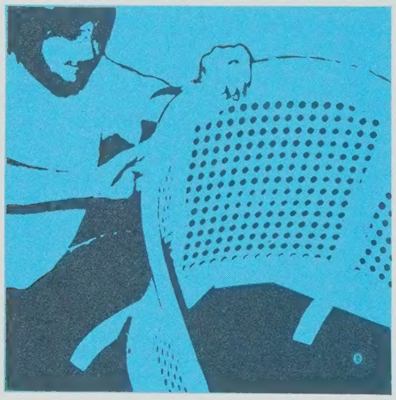
Cantol Furniture Division

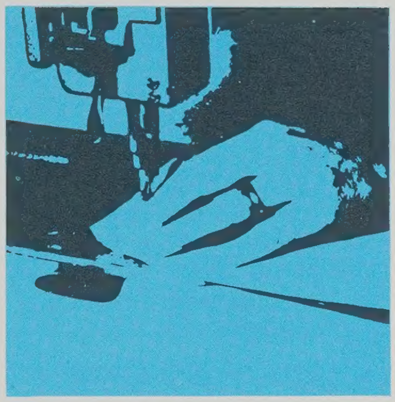
Dependable Flexsteel Furniture manufactures a line of domestic seating, contract furniture for restaurants and institutions and office furniture. These products are distributed through Department Stores, Furniture Dealers, Office Furniture Outlets and Institutions.



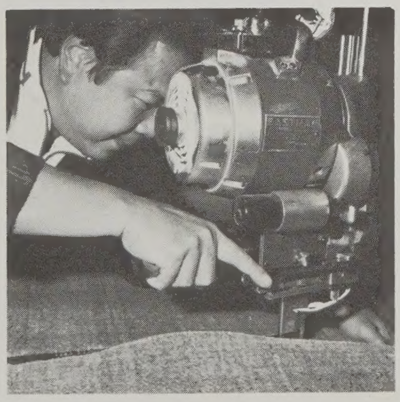
George Nakatsu Glenn McLaughlin Robert Clark William Grace Sidney Coleman









Message to the Shareholders

Cantol Limited experienced complex and unpreventable difficulties in the furniture division during its 1975 operation. A seven week labour strike, the subsequent increased labour costs demanded by the contract, the price, cost spiral of our economy, combined to yield a decline in sales and earnings from the Cantol Furniture Division, and to deplete any increase from the chemical division. As a result, sales from the continuing operations showed a net decline of approximately $343,700 from 1974. With the solid reorganization of key personnel, a pragmatic approach to any forthcoming challenges, and a major contract that is being shipped during the early part of 1976, this division should show a return to a more tenable position.

The profitable marketing pattern of the Canadian chemical division, has been extended to the United States, with the consolidation of products and methods that have proven the basis for success in past years. The establishment of an excellent management team and the nucleus of a vigorous and responsible sales force, met the challenge of the improved market conditions, to produce a most dramatic aboutface in your company's United States operations, through its subsidiary, Cantol Inc. The growth of the chemical division continues, more than ever, towards increasing potential, on both sides of the border.

The sale of Neo Drug Company, producers of generic drugs, was temporarily detained, by the refusal of the Foreign Investment Review Board. Before the year end, your company completed this transaction to a Canadian-owned drug manufacturer, thereby improving Cantol Limited's working capital position.

Your company again declared and paid a 30¢ tax free dividend.

On behalf of the management and shareholders, we affirm our belief that the strength of your company lies in the strength of those dedicated and determined individuals of Cantol, the employees, whose personal efforts are highly respected and deeply appreciated.

On behalf of the Board,

Jerry Sone
President

Consolidated Statement of Earnings

For the year ended December 31, 1975 (*with comparative figures for 1974*)	1975	1974 (restated, note 10)
Continuing operations:		
Sales	$8,662,080	$9,005,798
Operating costs and expenses		
Cost of sales, selling, general and administrative expenses, except for the following:	8,009,136	7,957,739
Depreciation	84,821	74,118
Interest on long-term debt	7,200	15,000
Other interest	169,145	122,764
	8,270,302	8,169,621
Earnings before income taxes and items shown below	391,778	836,177
Income taxes (note 5)		
Current	295,957	437,217
Deferred	(14,700)	6,700
	281,257	443,917
Earnings from continuing operations	110,521	392,260
Net earnings of subsidiary sold during year	50,910	70,974
Earnings before extraordinary items	161,431	463,234
Extraordinary items (note 7)	(48,308)	80,100
Net earnings	$ 113,123	$ 543,334
Earnings per share (based on weighted average shares outstanding)		
Continuing operations	$ .23	$ .83
Subsidiary sold during year	.11	.15
Extraordinary items	(.10)	.17
Net earnings	$ .24	$ 1.15

See accompanying notes to consolidated financial statements.

Auditors' Report to the Shareholders of Cantol Limited/Cantol Limitée

We have examined the consolidated balance sheet of Cantol Limited/Cantol Limitée and subsidiary companies as at December 31, 1975, and the consolidated statements of earnings, contributed surplus, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial positions for the year then ended, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Soberman, Isenbaum,
Colomby & Nisker
Chartered Accountants

Toronto, Canada
March 17, 1976

Consolidated Balance Sheet

As at December 31, 1975
(with comparative figures for 1974)

				1975	1974 (restated, note 10)
Assets					
Current					
	Accounts receivable			**$1,836,105**	$1,540,998
	Inventories (note 2)			**1,411,506**	1,536,020
	Income taxes refundable			**63,168**	—
	Prepaid expenses and other assets			**135,154**	87,298
	Current portion of note receivable			**50,000**	—
				3,495,933	3,164,316
Note receivable	10%, payable in equal quarter yearly instalments to 1979 (net of current portion)			**150,000**	—
Fixed					
		Cost	Accumulated Depreciation		
Land and buildings		$ —	$ —	**—**	447,373
Machinery and equipment		458,330	186,453	**271,877**	269,091
Leasehold improvements		230,915	81,903	**149,012**	162,421
		$689,245	$268,356	**420,889**	878,885
Deferred income taxes (note 1(e))				**6,000**	—
Goodwill (note 1(f))				**2,433,998**	2,742,017
				$6,506,820	$6,785,218

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet	As at December 31, 1975 *(with comparative figures for 1974)*	**1975**	1974 (restated, note 10)
Liabilities			
Current			
	Bank indebtedness (note 3)	**$1,206,384**	$1,508,170
	Accounts payable and accrued charges	**1,048,053**	825,075
	Dividend payable	**144,885**	—
	Income taxes	**—**	25,543
	Current portion of long-term debt	**77,053**	83,948
		2,476,375	2,442,736
Long-term debt and other non-current liabilities (note 4)		**456,677**	727,068
Deferred income taxes		**—**	8,700

Shareholders' Equity

Capital stock (note 6)			
Authorized:	1,500,000 common shares of $0.20 par value		
Issued:	482,950 shares (1974—475,330 shares)	**96,590**	95,066
Contributed surplus		**2,661,596**	2,638,736
Retained earnings		**815,582**	872,912
		3,573,768	3,606,714
		$6,506,820	$6,785,218

Approved on behalf of the Board

Director

Director

Consolidated Statement of Contributed Surplus

For the year ended December 31, 1975 *(with comparative figures for 1974)*	1975	1974
Balance at beginning of year	**$2,638,736**	$3,459,479
Excess of proceeds over par value of common shares issued under employees' stock option plan (note 6)	**22,860**	37,242
	2,661,596	3,496,721
Deduct: excess of cost over the par value of common shares cancelled	**—**	857,985
Balance at end of year	**$2,661,596**	$2,638,736

Consolidated Statement of Retained Earnings

For the year ended December 31, 1975 *(with comparative figures for 1974)*	1975	1974 (restated, note 10)
Balance at beginning of year: As previously reported	**$ 893,691**	$ 823,120
Adjustment of prior years' income taxes	**(20,779)**	(20,779)
As restated	**872,912**	802,341
Net earnings	**113,123**	543,334
	986,035	1,345,675
Deduct: dividend	**144,885**	142,599
: 15% tax paid on 1971 undistributed income	**25,568**	25,164
: goodwill written down	**—**	305,000
	170,453	472,763
Balance at end of year	**$ 815,582**	$ 872,912

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial position

For the year ended December 31, 1975 *(with comparative figures for 1974)*	**1975**	1974 (restated, note 10)
Source of working capital		
Earnings before extraordinary items	**$ 161,431**	$ 463,234
Items not requiring working capital		
Depreciation	**92,506**	86,236
Deferred income taxes	**(14,700)**	1,400
Reduction in income taxes as a result of loss carry forwards	**—**	80,100
Working capital from operations	**239,237**	630,970
Proceeds from sale of shares of wholly owned subsidiary (note 7(b))	**665,103**	—
Less: non-current portion of note receivable taken back	**(150,000)**	—
	515,103	—
Working capital deficiency of subsidiary sold	**27,710**	—
Issue of common shares under employees' stock option plan	**24,384**	38,879
	806,434	669,849
Use of working capital		
Reduction of long-term debt and other non-current liabilities	**250,391**	195,126
Net additions to fixed assets	**87,612**	160,781
Dividend	**144,885**	142,599
15% tax paid on 1971 undistributed income	**25,568**	25,164
Adjustment of prior years' income taxes	**—**	20,779
	508,456	544,449
Increase in working capital	**297,978**	125,400
Working capital at beginning of year	**721,580**	596,180
Working capital at end of year	**$1,019,558**	$ 721,580

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1975

1. Summary of significant accounting policies

(a) Principles of consolidation
The consolidated financial statements include the accounts of the Company and all its subsidiaries, which are wholly-owned. Effective September 30, 1975, a wholly-owned subsidiary was sold and the results of its operations have been included to the date of sale.

(b) Exchange translation
The accounts of the United States subsidiary have been translated at par which approximates the rate of exchange.

(c) Inventories
Inventories are valued at the lower of cost (on a first in, first out basis) and net realizable value.

(d) Fixed assets and depreciation
Fixed assets are recorded at cost. Depreciation is provided in the accounts on the straight line method over their estimated useful life as follows:

Machinery and equipment — generally 8 to 10 years

Leasehold improvements — over the unexpired terms of the leases.

(e) Income taxes
The Company follows the tax allocation method of providing for income taxes. Under this method the timing differences between reported and taxable income result in deferred income taxes. Except for a prior year's loss incurred by a subsidiary, the tax benefits of loss carry-forwards are not recognized in the accounts until realized. The balance, at December 31, 1975, of the future tax benefit from the loss-carry forward which has been recognized is not material and is included in deferred income taxes.

(f) Goodwill
Goodwill, all of which arose prior to December 31, 1973, represents the excess of the purchase price over the values ascribed to the net tangible assets of the businesses acquired and purchased goodwill. It is the Company's policy not to amortize its existing goodwill unless there has been an impairment in value.

(g) Research and development costs
Research and development costs are charged to earnings in the year in which they are incurred.

2. Inventories

Consist of:

	1975	1974
Raw materials and work in process	$1,171,894	$1,188,277
Finished goods	239,612	347,743
	$1,411,506	$1,536,020

3. Bank indebtedness

Bank indebtedness is secured by accounts receivable and inventories.

4. Long-term debt and other non-current liabilities

	1974	1975
(a) Long-term debt		
Debenture payable without interest, due 1978 (b)	$375,000	$375,000
Notes payable, 6%, due 1977	158,730	231,522
Mortgages on land and buildings owned by a wholly-owned subsidiary which was sold during 1975	—	168,694
	533,730	775,216
Less: principal payments due within one year	77,053	83,948
	456,677	691,268
Other non-current liabilities (net of current portion)	—	35,800
	$456,677	$727,068

Payments required to retire long-term debt:

1976—$ 77,053
1977— 81,677
1978— 375,000

(b) The debenture payable arose from the purchase of the net assets and business of Dependable Furniture Mfg. Co. Ltd. and is secured by a charge on the assets purchased. The amount payable on the debenture may be reduced should the aggregate pre-tax earnings of this division not reach specific levels at the end of the five year period ending June 30, 1978. At December 31, 1975, this division had not achieved its aggregate level of earnings.

5. Income taxes

The Company's accounting policies with respect to income taxes are set out in note 1(e).

Income taxes on 1975 earnings represents an effective rate of 66%. This is due to losses incurred for which future tax recoveries have not been recognized. As at December 31, 1975, certain companies have loss carry-forwards for income tax purposes aggregating approximately $480,000 available for deductions against future years' profits. These loss carry-forwards expire as follows:

1979	$ 85,000
1980	225,000
Beyond 1980	170,000
	$480,000

6. Capital stock

(a) During 1975, under an employees' stock option plan, 7,620 common shares were issued for cash for $3.20 per share. Of the $24,384 total consideration received, the premium of $22,860 was credited to contributed surplus and the par value of $1,524 to capital stock.

(b) Stock options

At December 31, 1975, 11,200 common shares were reserved for possible issue under an executive employees' stock option plan which was established during 1975. The stock options are exercisable in cumulative annual instalments of 2,240 shares at $3.20 per share within a five year period ending April 14, 1979. The exercise of the outstanding options would not have had a dilutive effect on earnings per share in 1975.

✓ **7. Extraordinary items**

(a) This consists of the following:

	1975	1974
Loss of sale of subsidiary (b)	($ 48,308)	$ —
Reduction in income taxes as a result of loss carry-forwards	—	80,100
	($ 48,308)	$ 80,100

(b) During the year the Company sold all of the issued shares of a wholly-owned subsidiary. The sale was accounted for as follows:

Net tangible assets of subsidiary	$405,392
Net book value of goodwill on acquisition	308,019
	713,411
Consideration received Cash	465,103
Note receivable, 10% payable in sixteen quarter yearly instalments	200,000
	665,103
Loss on the sale	$ 48,308

8. Remuneration of directors and senior officers

The total remuneration paid by the Company and its subsidiaries to its directors and senior officers was $339,800 in 1975 and $244,600 in 1974.

9. Long-term leases

The Company has entered into long-term leases with respect to its existing operations with various expiry dates to 1984. Minimum rentals (exclusive of taxes, insurance and maintenance costs) for the next five years under these leases are approximately $654,000.

10. Restatement

The balance of retained earnings at December 31, 1974 has been restated to reflect income tax reassessments made in 1975 applicable to the years 1971 and 1972. In addition, the comparative figures for December 31, 1974 have been reclassified to conform with the current year's presentation.


CANTOL

Cantol